

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7655**

**BILL NUMBER: HB 1920**

**DATE PREPARED: Jan 10, 2001**

**BILL AMENDED:**

**SUBJECT:** Elimination of school General Fund property taxes.

**FISCAL ANALYST:** Bob Sigalow

**PHONE NUMBER:** 232-9859

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill eliminates the authority of a school corporation to impose a General Fund property tax levy for the general operation and maintenance of the school corporation beginning in 2005. It provides a property tax replacement credit for school General Fund property taxes in 2002 at 20%, 2003 at 50%, and 2004 at 80%. The bill continues the authority of a school corporation to impose a property tax levy for certain purposes. The bill also provides a method for calculating the amount of miscellaneous taxes distributed to school corporations. This bill recodifies emergency loans and the duty to raise sufficient property tax revenues to repay outstanding bonds.

**Effective Date:** July 1, 2001; April 1, 2003; July 1, 2003; January 1, 2005; March 1, 2005.

**Explanation of State Expenditures:** The bill provides a credit of 20% in CY 2002, 50% in CY 2003, and 80% in CY 2004 on school General Fund property taxes levies. Gross school General Fund property tax levies are estimated to be \$1.76 B in CY 2002, \$1.84 B in CY 2003 and \$1.92 B in CY 2004. Under the bill, the reduction in gross school General Fund property tax levies are estimated to be \$352.0 M for CY 2002, \$918.6 M in CY 2003 and \$1.53 B in CY 2004. Since the state already pays property tax replacement credits (PTRC) and homestead credits against the gross levy, the state's net additional liability would be less than the gross credit amount. The estimated net state cost is presented in the table below.

Beginning in CY 2005, the bill would prohibit schools from levying a property tax for the school General Fund. However, the bill would also guarantee that each school's General Fund would receive at least as much revenue as it did in the previous year. Absent any other revenue source, the state would be liable for the estimated school General Fund net levy amount plus any other revenues that are tied to the levy and would no longer be received. School General Fund net levies are estimated at \$1,463.0 M, Local Homestead Credits paid from COIT revenue are estimated at \$42.2 M and Local Property Tax Replacement Credits paid from CAGIT revenue are estimated at \$27.3 M in CY 2004 for a total guarantee of \$1,532.5 M. This amount would be a potential liability to the state for CY 2005 and beyond. The state's guarantee is reflected in the

summary table below.

<b>Property Tax Year</b>	<b>% Credit</b>	<b>Estimated Net Credit</b>	<b>Est. Net Guarantee</b>	<b>State Fiscal Year</b>	<b>State FY Cost</b>
CY 2002	20%	\$268.8 M		FY 2002	\$134.4 M
CY 2003	50%	\$700.6 M		FY 2003	\$484.7 M
CY 2004	80%	\$1,170.4 M		FY 2004	\$935.5 M
CY 2005			\$1,532.5 M	FY 2005	\$1,351.5 M
CY 2006			\$1,532.5 M	FY 2006	\$1,532.5 M
CY 2007			\$1,532.5 M	FY 2007	\$1,532.5 M

The credit for CY 2002 - CY 2004 would be paid from the Property Tax Replacement Fund (PTRF) which is annually supplemented by the state General Fund. Any additional PTRF expenditures would ultimately come from the state General Fund.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** This bill phases out the property tax levy for school General Funds beginning in CY 2002 and eliminates it in CY 2005. Statewide, school net General Fund gross levies are estimated at \$1,343 M in CY 2002, \$1,401 M in CY 2003, \$1,463 M in CY 2004, and \$1,528 M in CY 2005. The net levy reduction is estimated at \$268.8 M for CY 2002, \$700.6 M in CY 2003 and \$1,170.4 M in CY 2004, and \$1,527.6 M in CY 1995. The net levy reductions for CY 2002 - CY 2003 would be replaced by a state-funded credit. The state would then guarantee funding for CY 2005 and beyond at a level equal to the previous year's funding.

Although this bill eliminates school General Fund levies for the general operation and maintenance of the school corporation, it would allow school corporations to continue to levy a school General Fund property tax for certain public libraries, nursery schools, historical societies, art associations, public playgrounds, and the Indianapolis Children's Museum.

Beginning in CY 2005, school corporations that successfully appeal to the School Property Tax Control Board could receive emergency relief from the state in the form of grants, loans, authority to borrow money, advances, permission to use unobligated balances in a construction fund, or any combination of these items.

Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded homestead credit of up to an additional 8%. It is estimated that in CY 2005, school corporations will receive \$42.2 M in COIT homestead revenue to replace school General Fund levies. COIT revenue that is not used to supplement local homestead credit is distributed to counties, cities, and towns. Therefore, the \$42.2 M that school General Funds will receive in CY 2005 under current law would instead be distributed to counties, cities, and towns as a result of this bill.

Under current law, counties that impose the County Adjusted Gross Income Tax (CAGIT) allocate local property tax replacement credits to civil taxing units and to school corporations. It is estimated that in CY 2005, school corporations will receive \$27.3 M in CAGIT revenue to replace school General Fund levies. CAGIT revenue that is not used to replace school General Fund levies is distributed to counties, cities, towns, and to other school funds. Therefore, the \$27.3 M that school General Funds will receive in CY 2005 under current law would instead be distributed to counties, cities, towns, and to other school funds as a result of this bill.

The bill also eliminates the County School Distribution Fund and the Supplemental School Operating Reserve Fund in Lake County and the County School Distribution Fund in Dearborn County. The levy for the Lake County School Distribution Fund amounted to \$3,523,000 in CY 2000 and the Dearborn County levy was \$564,000 (school corporations in these counties would lose associated revenue under this provision).

Under this proposal, a tax increment financing (TIF) area would have the ability to place a special assessment on property in the allocation area if the elimination of the school General Fund property tax rate affects the TIF area's ability to repay obligations. The amount of the assessment would be limited to the difference between the total amount due on obligations entered into before April 2, 2003 and the total revenues available to pay them.

This bill provides an alternate method for calculating the amount of financial institution taxes and auto excise taxes to be distributed to school corporations after the elimination of the school General Fund property tax. The new calculation will ensure that the school General Funds will continue to receive financial institution taxes and auto excise taxes in the same amounts as they do under current law.

**State Agencies Affected:** State Board of Tax Commissioners.

**Local Agencies Affected:** School Corporations.

**Information Sources:** Local Government Database.